2 The City of London and the British government: the changing relationship

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An unchanging relationship between unchanging partners: this is how the relationship between the City of London and the British government has tended to be painted. Although this simplification aids interpretation of a long time period, it also distorts understanding. There was nothing constant about either the government or the City during the twentieth century, and so it would be remarkable if the relationship between the two did not change. Government was transformed during the century, emerging as the dominant force within British economic and social life. The City of London was also transformed as it shed its commercial and imperial past to focus on finance and Europe. Under these circumstances the relationship between the City and government could not remain static. At the same time both existed within, and had to adapt to, a global economy that forced changes as a result of two world wars, a world depression and the rise and fall of managed national economies. This chapter seeks to trace and understand the City–government relationship over the past three centuries, focusing particularly on its intensity, and on the direction and limits of influence.

The origins of the relationship, 1700–1914

The City of London's leading institutions owed their very existence to the financial needs of the British government. The Bank of England was established in 1694 in response to the government's borrowing predicament, while the founding of the London Stock Exchange in 1802 was an attempt to create an organised market for the National Debt at a time of international conflict. The government relied on the City to provide the money required to finance its expenditure, while the City relied on the government for the business it generated. Such a mutually dependent relationship, with a high degree of self-interest on both sides, underpinned Britain's success as a military-fiscal state until the early nineteenth century. The bankers, brokers and merchants of the City of London flourished not only through supplying the government with the money and material required for successive wars, but also by obtaining from the government the security necessary for the successful conduct of business, especially protection from the activities of foreign rivals through a strong navy. However, in other respects eighteenth-century governments were not especially helpful in furthering the City's interests. Attempts to control the promotion of joint-stock companies and to restrict the trading of shares left the City trying either to circumvent state controls through a system of self-regulation, as with the Stock Exchange, or to provide its own remedies for gaps in the financial and monetary system resulting from government failure, as in the supply and use of money. From this perspective the dominant partner in the relationship was the government.

During the nineteenth century the government–City relationship became less intense, though more ambiguous. Following the re-introduction of income tax in 1844, governments had a relatively secure source of income that increased in amount as the nation's prosperity grew. As most governments ran balanced budgets, they had no need to borrow. The national debt ceased to grow and the proportion of government revenue required to service it fell from 54 per cent in 1830 to 11 per cent by 1913. This freed whatever political party was in power from dependence on the City. The government could even take the step in 1888 of reducing the interest paid on the national debt, even though this would displease many in the City.[1] Nor is there much real evidence that in the half century before the First World War any government paid particular attention to the City's wishes in framing domestic policy. Taxes on both high-income earners and inherited wealth were hardly City-inspired policies.[2] On the other hand, the City flourished under a regime of benign neglect where finance and trade were little troubled by intervention and controls either at home or abroad. With the end of protection and abandonment of imperial preference, this was an era of 'caveat emptor' where the buyer and seller or investor and borrower were left to take the consequences of their own actions, and where markets and those who participated in them were self-regulated. There was no dominant City view on issues such as protection or the gold standard,[3]

[1] R. Bonney (ed.), *The Rise of the Fiscal State in Europe, c. 1200–1815* (Oxford, 1999), chs. by Ormrod, O'Brien and Hunt; D. Winch and P. K. O'Brien (eds.), *The Political Economy of British Historical Experience, 1688–1914* (Oxford, 2002), chs. by O'Brien, Hoppit, Capie, Daunton, Peden.

[2] M. Daunton, *Trusting Leviathan: the Politics of Taxation in Britain, 1799–1914* (Cambridge, 2001), pp. 35, 123, 187, 207, 225, 370, 388.

[3] A. C. Howe, *Free Trade and Liberal England, 1846–1946* (Oxford, 1997), pp. 13–16, 232, 236; A. Marrison, *British Business and Protection, 1903–1932* (Oxford, 1996), pp. 19–20, 58, 75, 112, 204, 429–31. However, for a contrasting view on the influence of City financiers on government currency policy, see T. Wilson, *Battles for the Standard: Bimetallism and the Spread of the Gold Standard in the Nineteenth Century* (Aldershot, 2000), pp. 20, 175–6.

although due to the lack of an alternative source of economic expertise, bankers, brokers and financial journalists from the City provided expert individual opinion on financial, commercial and monetary matters.

The one aspect of government policy with which the City has been positively identified is expansion of the Empire, and the additional opportunities this created for trade and, especially, investment. Those assumed to have been driving this were the 'gentlemanly capitalists' of the City, a wealthy elite combining the twin pursuits of southern landowner and London financier who, divorced from the world of the northern industrialist, turned to the Empire as an outlet for their money and their talents.[4] However, it is difficult to discover much substance behind this interpretation. Since the ending of imperial preference in 1860 the City focused increasingly upon wider international trade and finance. Countries like the United States, Argentina and Germany loomed large in the City's financial and commercial activities, while much of the recently acquired Empire was of little significance, apart from gold in South Africa and rubber in Malaya. The Empire was not an issue which produced concerted City pressure on government. In the early twentieth century the most pressing City concern was the prospect of war with Germany. The City financed much of Germany's international trade, handled its capital exports, employed its ships and insured its mercantile marine, to such a degree that it was feared that a war would have disastrous consequences. Had the City been able to exert real influence over government policy before the First World War, then either there would have been no war with Germany, or else measures would have been taken to safeguard the City from its consequences.[5] As neither was achieved, it is difficult to make a case that government policy before 1914 was particularly responsive to City influence.

The disengagement between the government and the City in the nineteenth century was not just on the side of government, for the City became less dependent on the government for business. Though the Bank of England remained pre-eminent, playing a unique role as the banker's bank, by the early twentieth century other banks came to rank alongside it in size and importance, particularly the five major joint-stock banks which from London head offices dominated banking in Britain. Numerous other smaller banks were also important in that they provided banking networks around the world or were engaged in specialised services within the City itself. The Stock Exchange no longer relied on the national debt as its

[4] See P. J. Cain and A. G. Hopkins, *British Imperialism*, 2 vols. (1993).

[5] D. French, *British Economic and Strategic Planning, 1905–1915* (1992), pp. 68, 92–4; P. Kennedy, *Strategy and Diplomacy, 1870–1945* (1989), pp. 94–6.

main business. Instead, much of its activity was now focused on domestic and foreign corporate securities, especially railways. Between 1853 and 1913 the national debt as a proportion of the value of securities quoted on the Stock Exchange fell from 70 to 11 per cent. As a result, direct government interests in the City were fairly low. The same was also true regarding policy. Monetary policy was devolved to the Bank of England, which operated under the requirements of the international gold standard, not at the behest of the Chancellor of the Exchequer. There were no exchange controls and capital moved in and out of the country in response to the forces of global supply and demand. There were no barriers to either exports or imports, enabling the City to occupy a position at the centre of international trade. To most in the City the actions and policies of the government were irrelevant.

A relationship in flux, 1914–1939

The cost, duration and intensity of the First World War had profound consequences for both government and the City, immediately reversing the nineteenth-century trend and restoring their mutual dependence. From the very outbreak of the war government intervention in the City was required in order to prevent a financial collapse caused by a rush to withdraw savings, which would have resulted in a massive contraction in credit and widespread business failures.[6] The government convened a meeting of the banks, and declared a bank holiday to allow time for emergency measures to be implemented and to inject extra liquidity into the system. As hostilities dragged on the government was forced to control more and more of the economy in order to maximise resources for the war effort, with government borrowing rising inexorably. Whereas the quoted national debt of all kinds stood at £1 billion in 1913 the figure had more than quintupled to £5.4 billion by 1920, and the government's share of all quoted securities had risen to 32 per cent compared to the prewar level of 9 per cent. In contrast the £2.5 billion of quoted securities belonging to American railroads was almost entirely liquidated by British investors or requisitioned and sold by the government. The government's short-term borrowing through Treasury bills also dominated the London money market both during the war itself and for long afterwards, in

[6] For this episode see J. Peters, 'The British government and the City–industry divide: the case of the 1914 financial crisis', *Twentieth Century British History* 4 (1993), 126–48; T. Seabourne, 'The summer of 1914', in F. Capie and G. E. Wood (eds.), *Financial Crises and the World Banking System* (1986), pp. 77–116; also David Lloyd George, *War Memoirs*, I (1933), ch. entitled 'How we saved the City'.

contrast to the earlier importance of commercial bills financing international trade.[7]

However, the connection between the City and the government was far wider than that between lender and borrower. Wartime requirements created a close working relationship which extended beyond the Bank of England to other financial institutions. It was no coincidence that organisations such as the Accepting Houses Association (1914) and the British Bankers' Association (1919) date from this period, as these were a means of coordinating the views and actions of their members in dealing with the government. Government pressures now dominated the City. The relationship was particularly close between the Treasury and the Bank of England as they had the joint responsibility of continually re-financing the national debt. In turn, that brought in the banks and the discount houses, as the government's heavy borrowing had implications for the London money market. It also extended to the Stock Exchange as new issues there could interfere with the demand for government stock and bills. Thus, simply on the financial front the government now had a major interest in influencing what was happening in the City.

In addition, the government required the help of the City to achieve other policy objectives. A return to the relative stability and prosperity of the prewar years could not be achieved either quickly or without intervention. The government could not aim for solvency and stability simply by cutting its expenditure as it had done after the Napoleonic wars. Having acquired wider social responsibilities before the First World War, such as unemployment insurance and old age pensions, the government now had to tackle the mass unemployment and economic dislocation following the end of the short postwar boom, not least because of the political and social consequences that would arise if it did not. The City–government relationship forged as a result of the First World War was not only much more intense than in the past, but also more complicated.

During the 1920s the government made diverse and, at times, conflicting demands on the City, reflecting this more complex relationship. For the first time these demands extended from the purely financial to wider issues. Whether City banks continued to lend to firms in financial difficulties could affect the employment prospects of thousands of people and the prosperity of whole regions. Whether the City resumed its international lending could affect the supply and cost of finance within Britain, the demand for British exports, relations with overseas countries,

[7] For the City and government during the war years see E. V. Morgan, *Studies in British Financial Policy 1914–1925* (1952), and A. W. Kirkcaldy (ed.), *British Finance during and after the War, 1914–21* (1921).

and the international value of the pound. These issues were considered too important to be left to the City itself.[8] Hence government inquiries relating to the City now focused much less on market abuses, as in the past, than on the problems of currency, foreign exchange, industry and trade.[9] In contrast, the priority among most in the City was simply to see a return to the prewar position. A return to the gold standard in particular was regarded as having the twin benefits of stabilising the world economy and restoring external demand for Britain's export trade, and of forcing down domestic prices and wages and making industries competitive. Return was also essential if the City were to maintain its position as a global financial centre and re-capture what had been lost to New York, as it would restore exchange-rate stability. The restoration of the gold standard in 1925, at the prewar parity to the pound, has therefore been seen as evidence of a victory for the City and a defeat for manufacturing industry and its need for a lower exchange rate in order to remain competitive. Similarly, the abandonment in the 1920s of the temporary measures taken to protect industry from foreign competition has also been interpreted as a City victory, as it favoured those involved in the organisation of international supply and demand rather than in the sale or purchase of British manufactures.[10]

However, neither the return to the gold standard nor the restoration of free trade was a policy which the City collectively persuaded the government to follow. A thriving foreign exchange market had developed quickly in the early 1920s, which not only generated large profits for many in the City but also provided a means of avoiding exchange risk on transactions. At the same time there was a growing number of City bankers and brokers geared towards domestic business, who could expect to profit from protection. With hindsight it has become clear that neither the gold standard nor a fixed exchange rate nor even sterling itself was essential for the City's successful functioning as a global financial centre. However, such a

[8] For the City and government between the wars see S. Howson, *Domestic Monetary Management in Britain, 1919–38* (Cambridge 1975); D. E. Moggridge, *British Monetary Policy, 1924–1931. The Norman Conquest of $4.86* (Cambridge, 1972); T. Balogh, *Studies in Financial Organization* (1947); J. M. Atkin, *British Overseas Investment, 1918–1931* (New York, 1977); G. C. Peden, *The Treasury and Public Policy, 1906–1959* (Oxford, 2000), chs. 4–6.

[9] (Cunliffe) Committee on Currency and Foreign Exchange after the War, *Interim Report* (1918), *Final Report* (1919); (Balfour) Committee on Trade and Industry, *Final Report* (1929); (Macmillan) Committee on Finance and Industry, *Report* (1931).

[10] There is a huge literature on this subject but see B. Eichengreen, 'International monetary instability between the wars: structural flaws or misguided policies?', in Y. Suzuki, J. Miyake and M. Okabe (eds.), *The Evolution of the International Monetary System* (Tokyo, 1990), p. 105; F. H. Capie and G. E. Wood, 'Policy makers in crisis: a study of two devaluations', in D. R. Hodgman and G. E. Wood (eds.), *Monetary and Exchange Rate Policy* (1987), p. 169.

verdict was not clear to anyone in the 1920s, whether in the City, government or elsewhere. Consequently, restoration of the gold standard was considered inevitable, with only the timing to be decided upon. Similarly, a return to free trade was thought inevitable, as those who had opposed it had lost the debate before the war and those who supported it saw no alternative, especially for the export industries. Preserving a domestic market for manufacturing industries like cotton textiles and shipbuilding, extractive industries like coal, or services like shipping, was of little value when so much of their output was for foreign customers. As such it is very difficult to see either the gold standard or free trade as specifically City-inspired policies in the 1920s. Instead, they should be viewed as part of the attempt to restore the pre-1914 conditions which the majority of people simply assumed would re-appear in the near future.

Therefore, whatever the immediate consequences the First World War had for City–government relations, it appears clear that the longer-term intention was to pursue a policy of separation between the two, as in the prewar period. Most City experts expected London to resume its key role in international short- and long-term lending, though there was a recognition of the enhanced role of New York. Throughout the City there were attempts either to revive prewar global activities, such as the finance of international trade, or to replace what had been lost with other overseas activities, such as lending to central Europe. At the very least there was always imperial lending to fall back upon, with Australia in particular re-emerging as a major borrower. There was certainly no sign in the 1920s that the City had resigned itself to a domestic role or even an imperial one. The creation of the most important foreign-exchange market in the world after 1922 was evidence of the City's continuing global ambitions and its capacity to achieve them.

The City's influence has also been detected in the decision to leave the gold standard in 1931. There is the view that the 1929–31 Labour government was brought down by its attempts to reconcile maintenance of the gold standard, at the behest of the City, with the requisite cuts in public expenditure which it was unwilling to make at a time of high unemployment. In contrast, the National government that replaced it abandoned the link to gold without the disastrous consequences for the country that had been predicted in the City. In retrospect it appears clear that no government between the wars, whether Labour or Conservative, was willing to take the domestic measures necessary to maintain the international value of sterling.[11] The collapse of the gold standard in 1931 was not

[11] S. V. O. Clarke, *Central Bank Co-operation*, 1924–31 (New York, 1967), p. 201. For the political and policy aspects, see P. Williamson, *National Crisis and National Government. British Politics, the Economy and Empire, 1926–1932* (Cambridge, 1992), chs. 8–11.

engineered by the City but was forced on the government by the international economic situation and a self-fulfilling collapse of confidence in sterling. With the pound long regarded as overvalued and evidence appearing that the Bank of England lacked the resources to defend it, it was only a matter of time before Britain abandoned the gold standard and the fixed rates of exchange this required.

It is impossible to see the sterling crisis of 1931 as anything another than a defeat for the City, or at least for the internationally orientated element of it that had been so prominent before the First World War. It resulted in an even closer relationship between the government and the City. Through protection, imperial preference, and currency intervention the government was now in a strong position to influence the City's international connections, while the size and character of the national debt continued to give it a powerful voice in domestic financial markets. However, the government did not take on responsibility for the management of the economy, government borrowing remained low, budgets were balanced, and the management of the exchange rate was given to a quasi-autonomous department in a still independent Bank of England. Consequently, the government was neither in a position to direct the City's banks and markets nor did it want to do so. What had changed was the relationship with the Bank of England, which increasingly became an arm of the state rather than the representative of the City. The Governor of the Bank had become a permanent official, rather than a senior person seconded from the City for two years, while the Deputy Governor was now drawn from among the staff of the Bank.[12]

Apart from the Bank of England, and those areas of the City closely involved in government finance such as the discount market, much of the rest of the City did not come under the control of the state. At the same time City firms adjusted their business to the new conditions. A growing number of merchants, banks and brokers now serviced areas of the domestic economy that benefited from protection or imperial preference.[13] Though a focus on traditional industries like textiles and shipbuilding has suggested a fundamental City–industry divide in terms of finance, evidence for such a structural problem is largely absent in the 1930s. Understandable caution was exercised by banks that had lost money through poorly performing loans to industrial companies in the 1920s, although they had little choice but to continue lending to such customers as there were few alternative borrowers. At the same time investment banks and stock-broking firms were eager to make money by issuing

[12] P. Arnold, *The Bankers of London* (1938), pp. 14–15.
[13] Howe, *Free Trade*, pp. 286–8; Marrison, *British Business and Protection*, p. 403.

shares for businesses in expanding areas. Nevertheless, the 1930s were a difficult period for the City, with the decline of international trade, finance and services only partly compensated for by lending to such sectors as domestic house-building, retailing and consumer electrical goods or the growth of new activities like motor insurance and instalment credit.[14] Generally for the 1930s there is a lack of evidence suggesting much direct influence of the City over government policy, whether foreign or domestic, while the apparent immunity of the City to economic conditions was but an illusion.

The era of government ascendancy, 1939–1979

The real transformation of City–government relations came in the aftermath of the Second World War, when it mattered not only what policies the government followed, as these now had profound implications for economic and social life, but also whether the Conservatives or Labour were in power, as each pursued a different agenda and were influenced by different pressure groups. The Second World War itself had much the same immediate implications for City–government relations as the First. As the government sought to mobilise and monopolise all resources for its own ends, so the markets of the City were either closed or marginalized, banks were converted into collecting agencies for government funds, and City personnel either volunteered for or were directed into war work. With the direction of labour, rationing of essential food and clothing, compulsory savings, state control of production, rigid supervision of international transactions through ministries, boards and other government bodies, the planned economy came into being. The City was largely superseded. The government was now responsible for national distribution and savings and external commercial and financial relations. Whereas previously the government had acted through the City to obtain what it wanted, during the Second World War it set up its own systems, though drawing upon City expertise and contacts in the process. A crude measure of this transformation is the fact that the share of public expenditure in total national expenditure doubled during the war, rising from 28 to 56 per cent.[15]

When the war ended in 1945 the wartime apparatus of state was not immediately dismantled. Unlike the period after the First World War

[14] For the City at this time see R. Roberts, 'The City of London as a financial centre in the era of the Depression, the Second World War and post-war official controls', in A. Gorst, L. Johnman and W. S. Lucas (eds.), *Contemporary British History, 1931–61* (1991).

[15] R. Middleton, *Government versus the Market. The Growth of the Public Sector, Economic Management and British Economic Performance, c. 1890–1979* (Cheltenham, 1996), p. 418.

there was no prewar era of stability and prosperity to try to revive. A repeat of the mass unemployment and international tension of the 1930s was highly unattractive. What appealed to most was the planning that had brought success in the war and could now be applied to a peacetime economy. A rational economic underpinning of such a philosophy lay in the writings of Keynes, who argued that a greater degree of government control over the economy produced a better outcome for all than if it was left entirely to the market. There was also the social programme outlined by Beveridge, promising to deliver a better future to the victorious British people. The Labour party's own agenda included a large extension of public ownership and state direction of the economy. This was a potent mixture, and with the election of a Labour government in 1945 a majority of the British public expressed its support for the package of measures on offer. Nevertheless, a complete takeover by the state of all private enterprise and private wealth was not proposed. There remained a role for the City of London.

In implementing its programme, the postwar Labour government relied increasingly on the advice of professional economists rather than the practising bankers and brokers of the City.[16] Wartime controls such as rationing were retained, and the power of the state was progressively extended through nationalisation. The Bank of England became an arm of government in 1946 while the railways, coal mining, gas, electricity, water and, eventually, iron and steel were all nationalised, giving the government a direct voice in financial and monetary matters. Taken with the wholesale disposal of foreign securities during and shortly after the war, much of what the London capital market had formerly been engaged in was now lost, leaving little beyond the issue of and trading in the national debt in all its forms. A similar situation prevailed in the money market where meeting the short-term needs of government through the issue of Treasury bills was now totally dominant. In the late 1940s the government consolidated its wartime power to take full control over the economy. In terms of its external relations there was the maintenance of exchange and trade controls, imperial preference, the sterling area and intergovernment financial flows. In terms of the domestic economy the government now owned large parts of it and was in a position to direct the rest. The City had little alternative but to accept the position and work within it, conscious that the government could easily extend its nationalisation programme to the major banks and insurance companies or even take direct control of institutions like the Stock Exchange.[17] Nevertheless, some parts of the

[16] See A. Cairncross, *Economic Ideas and Government Policy. Contributions to Economic History* (1996), ch. 2.

[17] For a contemporary assessment see D. Sachs, 'Survey of the financial institutions of the City of London', in Institute of Bankers, *Current Financial Problems and the City of*

City still prospered, such as City accountants and solicitors involved in the nationalisation programme, or the Lloyds insurance market, which retained an international business.

With the election of the Conservatives in 1951 the relationship between the City and the government again became more complex. The Conservatives abandoned many of the controls introduced by the preceding Labour government, as with the ending of rationing in 1954. This coincided with a growing liberalisation in global trade and finance that gradually restored a role to markets in the pricing and movement of goods and money. The result was a City revival on both the domestic and international fronts. Moreover, the greatly increased involvement of the government in economic and financial matters during the 1940s had inevitably worked in favour of financial institutions and businesses located in London, and against those in previously important financial and commercial centres like Liverpool and Glasgow. Many provincially based businesses had become large nationalised industries run from London and tapping London's financial and commercial markets and services. They were followed by the private sector where large public companies absorbed numerous local concerns through mergers and acquisitions, leading them to switch their fund-raising activities to the City. The consequence was that in the 1950s the City of London acquired a prominence within the British economy that it had never previously possessed, largely courtesy of the government. There is no evidence that this outcome was intended by either party. It was simply an accidental by-product of government action which encouraged the centralisation of so much economic decision-making in London.

In addition the City still remained a financial centre of major importance within the world economy, though now eclipsed by New York. The continued existence of both the British empire and the sterling area helped to direct commercial and financial flows to London. Potential rival centres in Europe, such as Paris, Berlin and Amsterdam, had all been badly damaged during the war or, in the case of Zurich, had not yet developed sufficiently really to challenge London. British governments were therefore faced with an internationally powerful financial centre and one that was in a strong position within the domestic economy.

Such a situation was of significance for the government because, despite the change of political party in power, it was still committed to managing the economy. The Conservatives did not dismantle the apparatus of state ownership and control established by Labour in the postwar

London (1949). See also J. Fforde, *The Bank of England and Public Policy, 1941–1958* (Cambridge, 1992); it is no accident that Fforde's title includes the words 'and public policy'.

years. With a few exceptions like steel, those industries nationalised by Labour remained so under successive Conservative governments from 1951 to 1964. Similarly, the Conservatives kept monetary and fiscal controls inherited from Labour. Public expenditure as a share of national expenditure, which stood at 37.5 per cent when Labour lost power in 1951, was 38.9 per cent in 1964, the year Labour returned to power.[18] The Conservative government maintained exchange and import controls, which protected British manufacturing and agriculture from foreign competition, but which also restricted British investors and British banks to placing their funds with domestic borrowers like the government itself or the growing number of companies tapping the London capital market. Large swathes of the economy remained under state ownership, the Bank of England could tighten or ease credit whenever the government required, and the freedom of the capital market to operate globally was circumscribed by exchange controls.[19]

Under these circumstances City financiers began to map out a new future designed to meet the financial needs of the British government and British business within the limits set by government. The London clearing banks co-operated in controlling the supply of credit and in return gained official support for their interest-rate cartel. The discount houses enjoyed a stable business as intermediaries in the market for short- and long-term government debt. The Stock Exchange became the quasi-official regulator of the securities market and its members were able to charge fixed commissions with impunity. During the 1950s a significant part of the City therefore became dependent upon either government business or protection for its livelihood.[20] The government decided what was in the national interest and expected the City to adhere to its agenda. As a result, relations between the Conservative government and the City were not always amicable. In 1960 the Prime Minister, Macmillan, lamented 'the very unsatisfactory relations between the Treasury, the Bank, and what is roughly called the City, especially the Clearing Banks'.[21]

Nevertheless, in the 1950s there appears to have been a high degree of co-operation, an almost unwritten pact, between the City and the government. The City delivered the control over the money and capital markets required by the government, and received in return general stability and a guarantee of income not normally existing under volatile or competitive trading conditions. Such a pact was the product not of

[18] Middleton, *Government versus the Market*, p. 91.

[19] For this era see Roberts, 'City of London'.

[20] M. Moran, *The Politics of Banking. The Strange Case of Competition and Credit Control* (1984), pp. 16–23.

[21] Quoted in Kynaston, *City of London*, IV, p. 251.

City influence over a Conservative government but rather of mutual self-interest.[22] However, domestically, this government–City pact extended only as far as the major banks and discount houses, marshalled by the Bank of England, and the major brokers and dealers of the securities market, controlled by the Stock Exchange. Other individuals and businesses who were not subjected to controls or not members of any cartel were eager to gain at their expense. The provincially based building societies are the classic example, as they were able to offer more competitive rates than the banks and so attracted a growing share of deposits.[23] The mechanisms of control that had worked during and immediately after a world war were increasingly ineffective when what was needed was the ability to respond to a rapidly changing market place, requiring not a centralised bureaucracy but a devolved customer-focused strategy.[24]

This was also true internationally. To succeed in managing the economy the government had to ensure that Britain remained relatively isolated from the rest of the world, otherwise the markets both for goods and services and for money and capital would be responsive not to the wishes of the British government but to global supply and demand. The moves towards liberalisation in world trade and finance which took place in the 1950s jeopardised the effectiveness of the government's own controls, requiring it to become more interventionist in order to achieve its objectives. Government restrictions on the use of sterling in the finance of world trade, as well as in the issuing of foreign loans in London, imposed to protect an internationally weak currency, hampered the City's re-emergence as a global financial centre. The need to intervene in the domestic financial markets, in order to support the external value of sterling, hampered business in the City. There is a historical belief that the future of the City as a financial centre was tied to the value of sterling and that it was therefore the City above all that opposed devaluation, which could have improved the international competitiveness of British manufacturing industry.[25] However, if any particular group in the City had influence over government policy in the 1950s it was those leading commercial bankers, merchant bankers and stockbrokers whose interests were largely focused on domestic business. In contrast the international bankers in the

[22] For a contemporary overview of the City in the 1950s see P. Bareau, 'The financial institutions of the City of London', in Institute of Bankers, *The City of London as a Centre of International Trade and Finance* (1961).

[23] For this and other aspects of money and banking see the authoritative account, M. Collins, *Money and Banking in the United Kingdom: a History* (1988).

[24] See G. Morgan and A. Sturdy, *Beyond Organizational Change: Structure, Discourse and Power in UK Financial Services* (2000), pp. 80–2.

[25] See S. Pollard, *The Wasting of the British Economy. British Economic Policy 1945 to the Present* (1982), pp. 35, 71–3, 85–6, 185.

City possessed little influence, even being excluded from membership of the British Bankers' Association until 1972.[26] Detailed examination of the policy-making process leading to the Conservative government's commitment to maintain the external value of sterling between 1951 and 1964 has recently revealed how marginal was City influence as compared to that of politicians and civil servants. The policy was tied up not only with the maintenance of the sterling area, but also with relations with the Commonwealth, Britain's international position, prestige among the world community and numerous other disparate beliefs and interests. To see the commitment to sterling as driven solely by City interests can no longer be sustained in the face of the mounting evidence otherwise.[27]

Consequently, by the early 1960s many in the City saw limited benefits in abiding by the controls imposed through the Bank of England or the Stock Exchange. Inevitably, this produced tensions with the government, and the unwritten pact began to break down even before the Labour election victory of 1964. Changes in the composition of the City also weakened government ability to make its policies effective. From 1960 onwards, restrictions imposed by the government of the United States on its banks and financial markets in order to protect the external value of the dollar drove international business abroad, with London becoming the preferred location of most because of ties of language, law and convenience. Increasingly the City was populated by foreign banks and brokerage houses over which neither the Bank of England nor the Stock Exchange had any authority. The Bank saw no problem with this development as its focus was on the domestic financial system and on sterling, and these firms, though based in the City, conducted their business in US dollars on behalf of non-British clients. The government even saw benefits in terms of jobs and taxes.[28]

Hence it was underlying changes within the City itself that led to its difficult relationship with the new Labour government, rather than simple opposition to a socialist government or a traditional antagonism between a right-leaning City and a left-leaning government.[29] Until the 1966 general election the Labour party did not possess a sufficient majority in

[26] V. Sandelson, 'The confidence trick', in H. Thomas, *The Establishment* (1959), pp. 117–18, 126–8, 131, 134–6; A. Gleeson, *London Enriched: the Development of the Foreign Banking Community in the City over Five Decades* (1997), pp. 29, 48, 82, 108, 116.

[27] G. Krozewski, *Money and the End of Empire: British International Economic Policy and the Colonies, 1947–58* (Basingstoke, 2001), pp. 160–5; Kynaston, *City of London*, IV, pp. 300–1.

[28] For these years see S. Battilosssi and Y. Cassis (eds.), *European Banks and the American Challenge: European Banking under Bretton Woods* (Oxford 2002).

[29] E.g. A. Sampson, *The Anatomy of Britain Today* (1965), p. 395, for the City's mood having 'degenerated into a selfish and destructive sulk'.

Parliament to follow any different policy regarding the City. Even with a large majority thereafter, little changed. There was no wholesale policy of nationalisation. The relatively modest devaluation of sterling in 1967 did not represent any major shift in the government–City relationship akin to the departure from the gold standard in 1931. Rather, in the 1960s there increasingly existed two Cities. A new City was developing in response to the growing international Eurodollar and Eurobond markets located in London because of the restrictions placed on New York. It was heavily dominated by foreign banks, with those from the United States rapidly joined by others from Japan and continental Europe. Some British firms were involved, such as the Midland Bank and Warburgs, but business was largely driven by those from abroad. This part of the City was closely integrated into the international financial system and was concerned with the domestic situation in Britain only in a tangential way, through the consequences of government policy for Britain's standing in international markets and on exchange and interest rates.[30]

To this part of the City the whole issue of sterling or Britain's balance of payments crises was a sideshow. It was little interested in British government policy as long as business was not harmed. In contrast the older City remained more directly concerned with British government policy for management of the economy and with the consequences for inflation, corporate profits, interest rates, and taxation of income and capital. The liquidation of foreign investments combined with restrictions on overseas business by post-1945 governments had forced many in the City to orientate their entire business towards the issue of securities on behalf of British companies, organising mergers between these companies, and trading and investing in their stocks and shares. However, little evidence has been produced to suggest that this part of the City either tried to influence policy-making or was successful in doing so. Despite the continuing fear, especially with a Labour government in power, that resistance would be followed by even more intrusive measures, even nationalisation, the Bank of England and the City managed to preserve their self-regulatory, autonomous, status. As financial business of all kinds flourished, the City had little reason to oppose the government or seriously resist its policies in the 1960s.

By the beginning of the 1970s a new City of London had therefore emerged. The externally orientated, foreign-owned component was well established and flourished as long it was left alone by the authorities. Its currency was increasingly the US dollar rather than the British pound.

[30] For this see C. R. Schenk, 'The origins of the Eurodollar market in London, 1955–1963', *Explorations in Economic History* 35 (1998), 221–38; R. Fry (ed.), *A Banker's World: the Revival of the City, 1957–1970* (1970).

No longer did the fate of sterling as an international currency and that of the City of London as an international financial centre appear to be inextricably linked. The City had little reason to try and influence the government in favour of maintaining the external value of sterling, long before the attempt was finally abandoned in the 1970s.[31] The Labour government chose not to intervene in the City, not through any City pressure but because events on the international financial front appeared to have little relevance to the domestic situation. For example, the Eurodollar market emerged 'out of a non-regulatory vacuum in the City'.[32] In the 1970s, both Labour and Conservative governments recognised that it was not the City itself that determined the external value of sterling but the reaction of global markets to British balance-of-payments crises, budget deficits, industrial unrest or political instability. Intervention was ineffectual and unnecessary. The Bank of England was left to supervise and monitor these new developments without regard to a political agenda.[33] The arm's-length supervisory system proved a major advantage for Britain at a time when bankers and brokers from across the world were trying to escape the clutches of national authorities and to relocate where the rules of orderly market behaviour would be both respected and enforced.

The evolved City of London was thus ideally placed to profit from the international financial instability of the 1970s. It was able to provide the money and capital markets required after the collapse of coordinated central bank control. As a financial centre with extensive international connections and well-established financial systems it was able to respond to such global financial problems as the need to recycle surplus funds from oil-rich countries to those with large deficits. For the City to emerge as the premier international financial centre it was necessary only for the British government not to impose new controls and restrictions that would drive potential business elsewhere. Even had the Government been inclined to take such action, its freedom to do so internationally was circumscribed by past agreements on the liberalisation of global trade and finance and then by accession to the European Economic Community in 1973.[34]

Nevertheless, this did not mean that the Government–City relationship had become merely regulatory, conducted through the mediation of the Bank of England. Both Labour and Conservative governments in

[31] Kynaston, *City of London*, IV, pp. 361, 395–6.

[32] G. Burn, 'The state, the City and the Euromarkets', *Review of International Political Economy* 6 (1999), 236.

[33] R. Shaw, 'London as a financial centre', repr. in R. C. Michie (ed.), *The Development of London as a Financial Centre*, 4 vols. (2000), IV, pp. 131–2.

[34] For this period see S. F. Frowen (ed.), *A Framework of International Banking* (1979); also R. Roberts and D. Kynaston, *City State. How the Markets Came to Rule Our World* (2001).

the 1970s remained committed to managing the British economy, to a lesser or greater degree, and that meant exercising control over the City. In turn those in the City undertaking domestic business had a vested interest in trying to influence government policy. In 1970 the new Conservative government was keen to introduce more effective controls over the banking system to contain the growth of fringe banks, hire-purchase companies and alternative money markets. At the same time the restrictive practices operated by the major banks, especially on interest rates, had attracted the scrutiny of such bodies as the National Board for Prices and Incomes and the Monopolies Commission. The 'competition and credit control' policy introduced in 1971 aimed simultaneously to encourage competition among all types of banks and to control the availability and cost of credit. In retrospect this appears an impossible task, particularly in a period of growing inflation and industrial unrest in Britain and of international financial instability related especially to the weakness of the dollar and the price of oil. The result was a rapid monetary expansion in Britain culminating in a financial crisis in 1974. The Bank of England had to intervene in order to prevent a massive financial collapse, forcing the major banks to support the rescue of a large number of fringe banks, who had been their competitors. By March 1975 a total of £1.2 billion had been provided. Credit controls were re-imposed and the Bank took a more interventionist attitude towards banking supervision, as it could no longer rely upon a close relationship with the major banks to restrict the availability of credit. The Banking Act of 1979 established more formal supervision of the entire banking sector, including for the first time the numerous foreign banks located in London. Illustrating the complexity of the task the Bank of England faced was the fact that 538 firms applied to become either recognised banks or licensed deposit takers – in contrast to previous recognition of merely the five major British retail banks.[35]

The primary concern of both the government and the City in the 1970s was the state of the public finances. As government borrowing escalated in the mid 1970s, as a result of worsening domestic economic problems and ballooning inflation, the Labour government of 1974–9 faced real difficulties in obtaining sufficient funds to finance its budget deficits. A budget surplus in 1970 equivalent to 3.4 per cent of GNP had become a deficit of 3 per cent of GNP in 1973. That deficit then rose to a peak of 5.4 per cent of GNP in 1976 and, though it fell thereafter, the government never managed to balance its finances for rest of the decade. Almost for the first time, there appeared to be a lack of confidence among potential

[35] For this episode see Moran, *Politics of Banking*. The figure of £1.2 billion comes from Morgan and Sturdy, *Beyond Organizational Change*, p. 84.

lenders in the British government's ability to service its debts. Although the government was always able to raise the required funds, it had to pay higher rates of interest than previously and tailor its borrowing more to the needs of potential lenders and investors.[36] During the 1970s the quoted National Debt rose by £53 billion in nominal terms – although the rise in the market value was only £45 billion, indicating the suspicion of institutional investors at home and abroad. In 1976 the Labour government had to seek assistance from the International Monetary Fund and accept the conditions attached, so perilous was its financial position.[37]

In many ways these years represented a watershed in the post-Second World War government–City relationship. Prior to the mid 1970s a working relationship had existed from which, on the whole, both sides gained. Despite some unhappiness with the direction of policy and level of taxation, many in the City worked with successive governments, helping them to achieve their policy ambitions. However, in the 1974 Labour government they faced an antagonistic administration unable to deliver either stable finances or a steady growth in prosperity. Long-standing frustrations with government policy, whether Labour or Conservative, came to the fore particularly in that part of the City which relied almost entirely upon the British economy for its business and was suffering as a result of unstable economic, financial and monetary conditions.[38] In the financial crisis of 1974 many in the City not only experienced falling incomes but also lost their livelihood. There was a contraction of over 4000, or 31 per cent, in the number of staff employed by London-based members of the Stock Exchange during that year. In contrast, that part of the City that largely conducted its business abroad faced little in the way of controls and prospered in the volatile international conditions of the time.[39] The number of foreign banks with London branches expanded rapidly as did turnover in a wide range of financial markets. The very difficulties experienced by British industry and the resurgence of activity in the City of London were connected, but not to each other. Rather, they were both consequences of the collapse of the golden age of the world economy.[40]

36 C. Goodhart, 'Monetary policy and debt management in the United Kingdom: some historical viewpoints', in K. A. Chrystal (ed.), *Government Debt Structure and Monetary Conditions* (Bank of England 1999), pp. 60–1 and Annex 2.

37 Kynaston, *City of London*, IV, ch. 17; R. C. Michie, *The London Stock Exchange. A History* (Oxford, 1999), ch. 11.

38 For a notably outspoken attack on government interference and lack of direction, see London Stock Exchange, Council Minutes, July 1975.

39 Gleeson, *London Enriched*, pp. 82–91.

40 See R. Pringle, 'Financial markets versus governments', in T. Banuli and J. S. Schor (eds.), *Financial Openness and National Autonomy: Opportunities and Constraints* (Oxford, 1992), pp. 89–101.

The government still expected the Bank of England both to regulate and control British banks, and the Stock Exchange to do the same for the securities market, although it could not guarantee the privileges expected in return, such as a monopoly of the domestic market. This was prevented by the increasingly competitive nature of the financial markets and by attacks on restrictive practices and price-fixing cartels from the government's own creations – the Monopolies Commission, the Office of Fair Trading and the Restrictive Practices Court. In the 1970s, these bodies had already forced changes in the way banks operated, creating a much more competitive environment. Now their attention, and that of a hostile press, switched increasingly to the restrictive practices of the Stock Exchange. Even in the City the Stock Exchange was under pressure because many institutional investors regarded the charges levied by its members as excessive, while the Bank of England feared that lack of change in the Stock Exchange would hamper London's competitive position as an international financial centre.[41] Consequently, the benefits to the City from any relationship with the government appeared to be fading during the 1970s. Many blamed the City for Britain's economic difficulties, identifying it with the international money and capital markets. Consequently in 1977 the Labour government appointed a committee to examine the working of the whole British financial system, to be conducted by the ex-Labour Prime Minister, Harold Wilson, who was known for his anti-City views.[42] It was with relief that the City saw the defeat of Labour in the general election of 1979, and its replacement with a Conservative government under Margaret Thatcher.

The end of the affair: City and government since 1979

One of the first acts of the new Conservative government was to abandon exchange controls. This was unexpected and does not appear to have been a result of any City pressure. There was now no division between domestic and international business as long as it was sufficiently large to attract an international provider. Lending and borrowing, buying and selling, merging and acquiring could be undertaken not only by a foreign bank or broker located in London but also routed via a foreign financial centre like New York or Paris. City institutions which under the exchange controls had been able to monopolise domestic business and impose charges and uncompetitive practices now found themselves in the same position as British industry, which had been progressively exposed to foreign

[41] See Michie, *London Stock Exchange*, ch. 11.
[42] Committee to Review the Functioning of Financial Institutions.

competition under successive rounds of GATT negotiations and then by membership of the European Economic Community. Such a move was a boon to that part of the City which serviced the world economy, but in the domestic market British firms now had to compete on the same terms as rival foreign banks and brokers located in London. This move was a pragmatic response by government to the impossibility of policing exchange control effectively, without any real appreciation of the consequences for the City. It destroyed the separation that had existed since the 1960s between that part of the City conducting an external business and that which conducted an internal business.[43]

As the banks and the money market had already been forced to make adjustments in order to survive in this more competitive environment, it was the Stock Exchange which found itself most exposed as a result. Whereas exchange controls had enabled the members of the Stock Exchange to monopolise the business generated by British investors buying and selling the domestic securities issued by British companies, they could not do so in international securities, even if issued by British companies. Instead, that market developed separately from the London Stock Exchange and had by the late 1970s become extremely active, with no fixed charges or controls on participation. In addition to these newly unleashed competitive pressures was the unresolved issue of the case against the Stock Exchange by the Restrictive Practices Court, which had been in progress since the early 1970s. Despite expectations that the Thatcher government would drop the case, this did not happen. The Conservatives proved equally unwilling to grant the Stock Exchange the immunity from prosecution necessary to safeguard its restrictive practices. The case therefore dragged on until after the Conservative victory in the 1983 election, when the government and the Stock Exchange eventually reached agreement that restrictive practices would be abandoned. The only concession that the Council of the Stock Exchange gained was the time to prepare for this more competitive future. It was given until 1986, and the event known as 'Big Bang'.[44]

'Big Bang' indicates two central aspects of government–City relations at the time. The first is that the Conservative government gave a higher priority to making the economy, including the financial services sector, more competitive than it did to bolstering restrictive practices, even though these were integral to the way that government itself exerted control over

[43] For the City in the 1980s see Bank of England, 'London as an international financial centre', *Bank of England Quarterly Review* 29 (1989).

[44] By this, the Stock Exchange lost its power to fix the charges levied by its members, to regulate the way they conducted their business, and to exclude the participation of both British banks and foreign firms.

the City. In future, that control would be exercised through legislation and statutory bodies. The cosy relationship forged in the heat of war and reconstruction in the 1940s was now at an end. The second aspect is the attitude of those in the City to the government of the day, irrespective of whether it was Conservative or Labour. Despite disappointment with government policy among many members of the Stock Exchange, they were minded to accept the 1983 deal rather than continue lobbying or take their chances with the Restrictive Practices Court.[45] Such was the complexity and speed of financial markets that the worst possible outcome for the City was one where politicians could interfere in their daily operation. Preventing this was the absolute priority of virtually all in the City, and it overrode any other consideration or divisions between them. Some in the City saw 'Big Bang' as an act of betrayal by the Conservative government because it led to the takeover of British-owned financial firms by foreign banks, running counter to the once legitimate expectation that the British government would favour national over foreign firms in the City of London.[46] The City's development as an international financial centre from the 1960s meant that towards the end of the century around one third of City employment was in branches of the foreign banks and other financial firms located there, while much of the activity in British firms was also externally focused, whether through City lawyers and accountants or banks, brokers and fund managers. Under these circumstances a policy of discrimination by the government would have resulted simply in the migration of foreign firms to other locations, if the situation became intolerable, resulting in the loss of employment and income for the British economy. Such a scenario was increasingly recognised by the government.[47]

Instead, what the British government could do was to provide the regulatory framework within which the City operated. The Bank of England had long been developing closer working relationships with the foreign banks located in the City. As early as 1947 the Bank was involved in the creation of a Foreign Bankers' Association in London, which acted as a conduit for its dealings with these banks. The Banking Act of 1979 gave the Bank of England the statutory power to authorise, or not, foreign banks wanting to establish a London branch. In 1981, in response to demands to be treated the same as domestic banks in all respects, foreign banks were given the same re-discounting facilities at the Bank of

[45] London Stock Exchange, Council Minutes, 21–22 July 1983. See also Michie, *London Stock Exchange*, ch. 12.

[46] See, for example, the merchant banker P. Augar, *The Death of Gentlemanly Capitalism. The Rise and Fall of London's Investment Banks* (2000), p. 312.

[47] N. Buck (ed.), *Working Capital: Life and Labour in Contemporary London* (2002), p. 112.

England.[48] What changed more radically in the 1980s was the extension of statutory regulation to other aspects of the City. Accompanying 'Big Bang', for example, was a replacement of the Stock Exchange as the regulatory authority for the securities market by the Securities and Investment Board. This recognised that the financial activities taking place in the City now extended far beyond banking, supervised by the Bank of England, and investment, over which the Stock Exchange had authority. Trading in securities now encompassed the growing Eurobond market over which the Stock Exchange had no control. Thus in the 1980s the City–government relationship became a technical one between a regulator and the regulated. As the government had no need to borrow at this time, with tax income boosted by privatisation receipts, and interest and exchange rates largely left to market forces, there was much less need for it to try and control the City. Conversely, the City was so much more international in terms of ownership and business that what the British government did was largely irrelevant, unless it had a direct impact through high personal taxes or excessive regulation. Moreover, institutions were more vulnerable to the demands of their shareholders than to those of government, making it increasingly unlikely that they would readily co-operate.[49]

Recognition that the City and government were operating in a very different financial world was underlined when the Labour party returned to power in 1997. As one of its first acts the Blair government gave independence to the Bank of England in setting interest rates, a move considered but not implemented by the Conservatives. Henceforth the setting of interest rates and the control of inflation were determined by an independent monetary policy committee rather than by the political or economic judgement of the Chancellor of the Exchequer. This move by the Labour government, undertaken not because of City pressure but for political reasons, represented a further transformation in the balance of power between the City and the government. As long as the government retained the power to set interest rates it could exert a direct influence over the money and capital markets, which made its actions important to the City, and thus encouraged it to try and exert political influence. Once that power was given away, the government's direct influence evaporated. Instead, its power over the City now rested with the regulatory framework under which the City operated. With the creation of the Financial Services Authority, which became the single regulator for the whole financial services sector in December 2001, the Labour government entrusted that power to a statutory body operating independently from government.

[48] Gleeson, *London Enriched*, pp. 37–9, 88–91, 116, 122.
[49] Morgan and Sturdy, *Beyond Organizational Change*, p. 102.

Though the City might complain about the costs and complexities of regulation, it could be confident that regulation was being conducted impartially and provided an orderly and stable environment.[50] Though the government was still able to affect the City of London through legislation and taxes, it no longer possessed the power to determine the lending policies of banks or the conduct of the Stock Exchange. All that the government retained for itself was an emergency power to intervene in the City, including the ability to run banks and markets, in the event of a national crisis such as might result from a terrorist attack. This reflected prudence rather than a desire for control. By then all recognised that the City of London was too valuable a resource to lose, for whatever cause.[51]

That is not to say that the relationship between the City and the government was now simply a technical one, focusing on regulation and tax. Questions continued to be raised about the extent and direction of influence. The unexpected re-nationalisation of Railtrack without consultation or compensation in October 2001 could be seen as a defeat for City interests, suggesting that they possessed little real power.[52] Conversely, the extraction of £7–8 billion in compensation from the government in March 2003, after prolonged private and public lobbying by institutional investors, suggested that the anonymous fund managers in the City were not without power.[53] Given that the government's costs of borrowing in financial markets had risen because of the Railtrack episode, as state guarantees were now in doubt, the government had little alternative but to negotiate a settlement and reduce the perceived risk if it wanted to borrow more cheaply in the future. Either way the City coped with the situation it found itself in.[54] In the case of Railtrack the City was able to force the government to change its policy by exerting influence through the market, and with the government needing to borrow or sell state assets it could not ignore this pressure. Conversely, in areas where the City could not exert any such influence the government was able to ignore City pressure. Such was the case with the annual City campaign to have the stamp duty on share dealings reduced or abolished. As such a step was likely to cost the government around £3–4 billion in tax revenues, and there was no obvious or immediate gain, apart from that to the international competitiveness of the Stock Exchange, City pressure proved fruitless.[55]

50 *Financial Times*, 30 Nov. 2001. 51 Ibid., 26 Feb. 2003.
52 Ibid., *passim* for Oct. 2001.
53 Ibid., 25 March 2002. For the background see ibid., 26 March 2002.
54 Ibid., 7 March 2002.
55 Ibid., 22 Oct. 2001, 8 Feb. 2003. See also Michie, *London Stock Exchange*.

On wider economic and political issues it is difficult to identify either a 'City view' or any concerted City pressure to achieve a particular end. This can be seen most clearly on the important question of whether or not Britain should join the single European currency, even though, by any measure or calculation, replacing sterling with the euro appears to be in the interests of the City. Though the creation of the euro has had no discernible impact on the City of London as a financial centre, the threat existed that if Britain did not join the single European currency, financial activity within Europe would gravitate elsewhere, such as Frankfurt or Paris, and non-European business would then follow. However, neither the Labour government since 1997, nor the Conservative opposition, has expressed any commitment to take Britain into the euro. The interests of the City were clearly peripheral to both parties, as compared to the wider political and economic considerations which determined the decisions taken by government. Conversely, within the City, such was the global nature of business and the importance of the dollar in so many transactions, that the debate on the euro was of rather marginal significance. What mattered in the City was the freedom to operate in any currency and in any market in the ways that best suited the participants. The City was becoming less concerned with the actions of the British government and more with those of foreign governments on decisions regarding such matters as banking solvency and market regulations. Under these circumstances the British government emerged as a defender of the interests of the City of London in competition with other financial centres, each supported by the interests of their own governments. This was not the product of City influence over government policy, but was driven by simple national self-interest.[56] Whereas for much of the twentieth century governments interpreted self-interest as meaning using the institutions and markets of the City to manage the economy and support manufacturing, by the end of the century there was a general recognition that the City was a major industry in its own right, and needed protection against unfair foreign competition.

Conclusion

By the end of the twentieth century governments of all political persuasions had come to recognise the difficulty, even impossibility, of controlling international financial markets.[57] In some ways, this situation was reminiscent of that at the beginning of the century, with the

[56] *Financial Times*, 3 May, 10 June, 25 June 2003.
[57] Kynaston, *City of London*, IV, p. 791.

interests of national governments circumscribed through the power of global markets, as represented by the City of London. The history of government–City relations in the twentieth century suggests that in the debate over whether markets or governments served the interests of people best the matter is far too complicated to be reduced to a simple answer in favour of one or the other. At times it was absolutely essential for the government to intervene in the City, as with the outbreak of the First World War and during the 1940s. There were also times when greater intervention was necessary, as in the aftermath of the First World War and the world economic collapse of 1929–32. Conversely, there were other times when government intervention did not prove helpful, distorting the economy and producing a sub-optimal solution. This was true in the return to the gold standard in 1925 and the controls over the financial system in place between 1950 and 1979. Though British politicians may have succeeded in persuading their public that responsibility for the country's economic failure rested with the City of London, the slow unravelling of the historical record produces a somewhat different conclusion, and one that is not particularly favourable to government. Only when all the evidence is to hand on how the government reached its decisions, and why, is it possible to distribute responsibility. Even then it is vital to understand the concerns of both the government and the City, recognising that neither was wholly united in their aims and that these aims changed enormously over time.